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2006 ANNUAL REPORT



lapp
Local Authorities
PENSION PLAN



Table of Contents

4 LAPP Highlights
8 LAPP Board of Trustees and Alberta Local Authorities Pension Plan Corp. Board of Directors
9 Investment Highlights
12 Message from the Chair
14 Message from the CEO
18 Discussion and Analysis
20 Discussion and Analysis | Investments
30 Discussion and Analysis | Benefit Administration
33 Local Authorities Pension Plan Financial Statements December 31, 2006



LAPP is Alberta's largest public sector pension plan.

LAPP was established in 1962 as a defined benefit pension plan for employees of Local Authorities in Alberta. These include health authorities, cities, towns, villages, municipal districts, counties, colleges, school boards and many other public sector organizations.

LAPP collects contributions from employers and employees, invests the contributions in equities, bonds, and other investment vehicles, and uses a combination of investment income and contributions to pay pension benefits to retirees.

The Alberta Minister of Finance is the legal trustee of the plan, which is governed by a 14 member Board of Trustees. The Board includes six employee nominees, six employer nominees, and one nominee each from retirees and government.

For more information on LAPP visit **www.lapp.ab.ca**.

LAPP Highlights

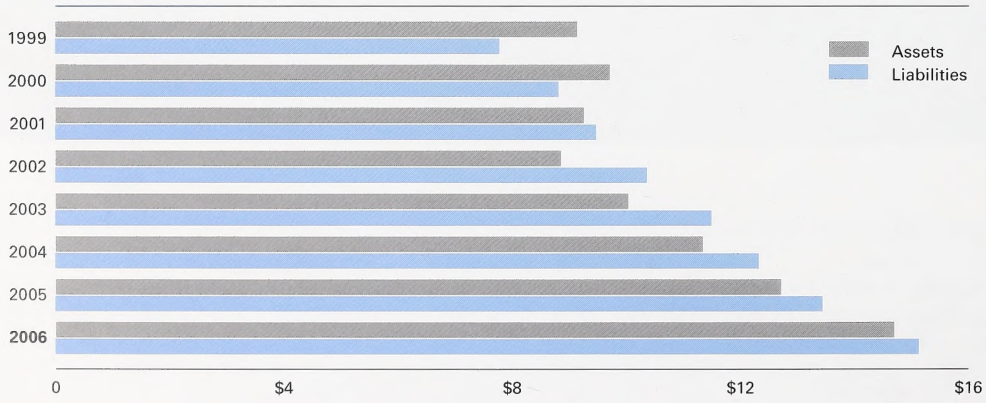
- Net assets available to provide member benefits (pensions): $14.6 billion, up from $12.6 billion in 2005
- Accrued benefits (liabilities): $15.4 billion, up from $13.5 billion
- Deficiency: $746.7 million, down from $863.6 million
- Funding Status: 95.1%, up from 93.6%
- Total membership: 168,334, up from 159,936

SUMMARY OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

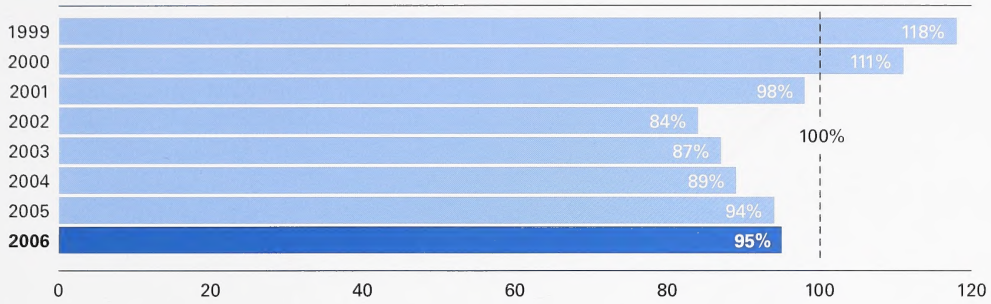
As at December 31, 2006

($ thousands)		2006		2005
Net Assets Available for Benefits				
Net assets available for benefits	**$**	**14,645,049**	$	12,619,142
Accrued Benefits				
Value of accrued benefits	**$**	**15,391,700**	$	13,482,700
Deficiency	**$**	**(746,651)**	$	(863,558)

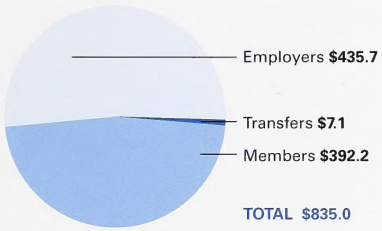
FINANCIAL STATUS ($ BILLIONS)



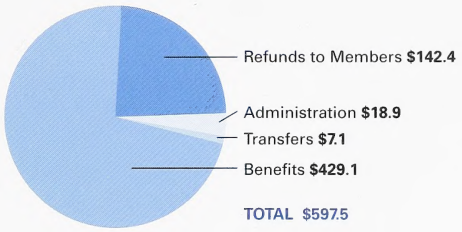
FUNDING STATUS (% FUNDED)



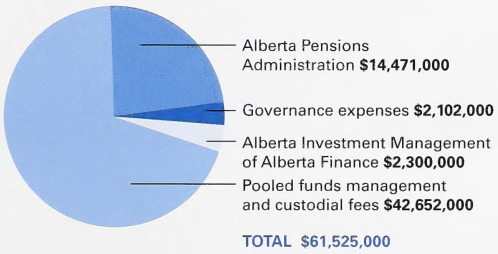
PENSION CONTRIBUTIONS AND TRANSFERS ($ MILLIONS)



PENSION PAYMENTS ($ MILLIONS)



PLAN EXPENSES



Administration and Governance Costs – $101 per member

- Alberta Pensions Administration (APA) Corporation costs to administer the plan – $14,471,000 or $88 per member
- Governance expenses for overseeing the plan – $2,102,000 or $13 per member

Investment Costs – $274 per member

- Alberta Investment Management of Alberta Finance costs to manage the plan's funds – $2,300,000 or $14 per member
- Pooled funds management and custodial fees – $42,652,000 or $260 per member (netted out prior to calculation of investment returns)





Photo Courtesy: Keith Wiley, United Nurses of Alberta

"I'm focused on one thing when I am at work – the health and comfort of my patient."

Roxene Kelloway | Registered Nurse | Red Deer | LAPP Member

LAPP Board *of* Trustees *and* Alberta Local Authorities Pension Plan Corp. Board of Directors, 2006.



Standing, left to right: Aaron Mireau, Tony Krivoblocki, Les Young, Elaine Noel-Bentley, George Walker, Rod Matheson, Richard Martin, Margaret Johnson, Bruce McLeod **Seated, left to right:** Tony Olmsted, Grant Howell (Vice Chair), John Vanderkaay (Chair), Helen Rice, Ken Hoppins

Chair
John Vanderkaay AP, HR&C
Health Sciences Association of Alberta

Vice Chair
Grant Howell BOP
Council of Board Chairs, Public Colleges and Technical Institutes of Alberta

Kenneth Hoppins
Alberta Association of Municipal Districts and Counties

Margaret Johnson AP
Retirees

Tony Krivoblocki AU
Alberta Federation of Labour

Richard Martin AU
Management and Out-of-Scope

Rod Matheson AU
Government of Alberta

Bruce McLeod BOP, HR&C
Alberta Federation of Labour

Aaron Mireau AP
Non-Alberta Federation of Labour Unions and Alberta Union of Provincial Employees

Elaine Noel-Bentley AU, HR&C
Health Boards of Alberta

Tony Olmsted BOP, HR&C
United Nurses of Alberta

Helen Rice AP, BOP
Alberta Urban Municipalities Association

George Walker AP, BOP
Alberta School Boards Association

Les Young AU, HR&C
Health Boards of Alberta

Committee Member Legend
AP – Appeals Committee AU – Audit Committee BOP – Board Operations Committee
HR&C – Human Resources and Compensation Committee

Investment Highlights

To diversify and capture global investment opportunities, LAPP invests in a broad portfolio of world class companies. Here are some examples.

CHINA NATIONAL OFFSHORE OIL CORPORATION focuses on the exploration and development of crude oil and natural gas in offshore China. The company is also one of the largest offshore crude oil producers in Indonesia.

THE ROYAL BANK OF SCOTLAND is one of the world's leading financial services providers and one of the oldest banks in the U.K. By the end of 2002, it was the second largest bank in Europe and the fifth largest in the world by market capitalization.

GAZPROM is the largest company in Russia and the biggest extractor of natural gas in the world. With 119 billion barrels of reserves, the firm ranks behind only Saudi Arabia and Iran as the world's biggest owner of oil and oil equivalents.

CITIGROUP is a global financial services company, with some 200 million customer accounts in more than 100 countries. The firm delivers a wide array of lending and investment services to individual consumers, small and large corporations, and governments.

HYUNDAI is South Korea's largest car maker. In 2005, it was ranked as the world's sixth largest vehicle manufacturer. The firm operates the world's largest integrated automobile manufacturing facility, capable of producing 1.6 million units annually. Hyundai motor vehicles are sold in 193 countries through some 5,000 dealerships and showrooms.

EXXONMOBIL is the largest publicly traded integrated oil and gas company in the world. The firm has daily production of 6.5 million boe (barrels of oil equivalent), contributing 3% of the world's oil and 2% of the world's energy supply.

Aircraft from **THAI AIRWAYS INTERNATIONAL** are a familiar sight at airports around the world. The national carrier of the Kingdom of Thailand, Thai operates domestic, regional and intercontinental flights radiating from its home base in Bangkok to key destinations around the world.

Three billion times a day, **PROCTOR AND GAMBLE** consumer goods touch the lives of people around the world. The company has a strong portfolio of well-known brands, including Pampers, Tide, Pantene, Bounty, Folgers, Pringles, Charmin, Downy, Crest, and Olay.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY is the world's largest dedicated semiconductor foundry. The firm has production facilities in Taiwan, Washington, Singapore and Shanghai, and is listed on both the Taiwan Stock Exchange (TSE) and the New York Stock Exchange (NYSE).

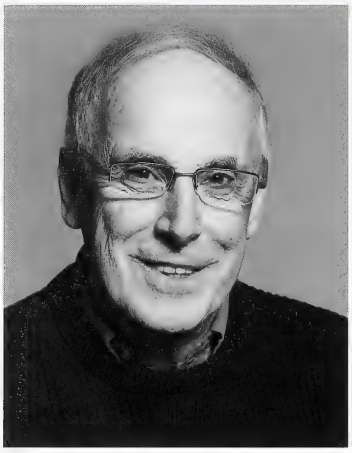




"The first firefighters are focused on maintaining perfect nozzle positioning...the second firefighters on taking as much back-pressure as possible…the third firefighters on moving the hose. By being able to focus solely on their own parts, the actions of the team are successful."

Robert Klosterman | Fire Chief | Spruce Grove Fire Service | LAPP member

Message *from the* Chair



2006 was a good year for LAPP. Investment returns were strong, liabilities behaved as anticipated, and the Plan moved closer to "fully funded" status, a point at which our total long-term liabilities equal our assets and investments.

Most people don't realize it, but a pension is one of the largest assets they will ever own. Worth tens (or even hundreds) of thousands of dollars and representing a lifetime of financial security, pensions continue to be, for many, a confusing tangle of words and numbers.

The annual report you are holding is designed to shed a little light on the subject. Read it, and you'll discover that pensions aren't as mysterious as you might have thought. Further, we think you'll be pleasantly surprised at how well your pension plan is doing.

The LAPP Board of Trustees works together with LAPP management to oversee $14.6 billion of assets for more than 165,000 members and retirees. LAPP collects employee and employer contributions each pay period, invests these contributions for many years, and uses them and their investment earnings to pay pensions to members upon retirement.

2006 was a good year for LAPP. Investment returns were strong, liabilities behaved as anticipated, and the Plan moved closer to "fully funded" status, a point at which our total long-term liabilities equal our assets and investments. Needless to say, the Board is pleased that 2006 turned out to be positive.

After carefully reviewing the Plan's financial situation, the Board was able to keep contribution rates unchanged for 2007 - good news for members and employers on a tight budget.

Managing a pension plan is demanding work. It takes careful planning, a long term perspective, and the courage to make difficult decisions. The Board made a number of key decisions in 2006, all designed to keep the Plan on track into the future.

Some examples? In early 2006 we revised our *Statement of Investment Policies and Goals*, which gives continued direction to our team of investment professionals. In 2006, LAPP's investments returned 14% - far more than the 6.3% long-term average on which we base our funding decisions.

In the summer, the Board achieved a reciprocal transfer agreement with the Public Service Pension Plan, to make it easier for LAPP members to transfer their pension from one employer to another while protecting the financial well-being of the Plan. The Board recognized that, in most cases, combining an employee's years of service into one pension plan would benefit that employee.

In an effort to better communicate with plan members, the Board approved a Strategic Communication Plan that called for LAPP to make its messages simpler and easier to understand. As a result, the use of pension "buzz words" like actuarial valuation, pension adjustment reversals and fiduciary duty will be kept to a minimum in future publications.

Over the year, the Board dealt with more than one hundred separate items relating to the safety and security of your pension. For each item, Board members weighed the facts and made their very best collective decision. I'd like to thank all members of the Board for their continuing hard work and diligence.

I'd also like to recognize the many contributions of Trustee Margaret Johnson, who retired from the LAPP Board at the end of 2006. Margaret, thank you for twelve years of dedicated service to the Plan.

As we go forward into 2007, the Board will continue to manage your pension while monitoring the issues that continue to challenge the Plan. To stay current with what we do, read this report, visit our website (**www.lapp.ab.ca**), and make 2007 the year you learn how your pension plan works.



John Vanderkaay
Chair

Message *from the* CEO



Significantly, this is the fourth year in a row that LAPP has closed the gap between assets and pension liabilities.

It is a pleasure to report to you on the financial and operational performance of the Local Authorities Pension Plan...especially when the news is good.

Strong leadership from our Board of Trustees and some good investment results came together to give the Plan another successful year in 2006. Our funded ratio, which compares assets to liabilities, climbed from 93.6% in 2005 to 95.1% in 2006. Significantly, this is the fourth year in a row that LAPP has closed the gap between assets and pension liabilities.

The strong performance was due to buoyant equity markets and the mix of investment classes selected by the Board in our *Statement of Investment Policies and Goals (SIP&G)*. The SIP&G provides direction to the investment managers who actively invest LAPP's funds in financial products around the world. These investments performed well in 2006, which subsequently drove the total value of LAPP's assets from $12.6 billion in 2005 to a new high of $14.6 billion.

While the value of our assets climbed, the stable interest rate environment in 2006 also brought relief to our liability picture. Interest rates increased slightly to stabilize and reduce our overall liabilities which, when combined with

our strong investment returns, gave a significant boost to LAPP's overall financial picture.

As always, storm clouds may be lurking on the horizon. The double-digit investment returns that LAPP has enjoyed for the past four years cannot continue forever, so we have planned for lower investment earnings in the future. Interest rates may change in 2007, which would have an immediate impact on the liability side of our balance sheet. The Board will continue to monitor these items and make adjustments as necessary.

From an operating point of view, the year saw advancements in several areas. The Board made key decisions in the areas of governance, stakeholder consultation, plan design and communications, all of which served to strengthen and clarify our collective roles. Our two partner organizations (Alberta Pensions Administration Corporation and Alberta Investment Management) made organizational changes to improve their service to LAPP, moves that we welcomed.

Board members spent a significant amount of time providing policy guidance and leadership to LAPP's management team, and for their efforts I am grateful.

Alberta Pensions Administration Corporation and Alberta Investment Management play key roles in the day to day operation of LAPP, as do employees at Alberta Finance and at the LAPP executive office. Thank you to all these employees for their fine work.

Finally, remember that pensions are long-term businesses, and good years are often offset by bad ones. Our attention must not stray from LAPP's ultimate goal – to provide a safe and secure pension for plan members and retirees. It is gratifying to know we have strong and steady hands on the Board and within our employee ranks, all pulling in the same direction.



Ron Liteplo
President and CEO
Alberta Local Authorities Pension Plan Corp.

RUF
RIGGER



"Precision and concentration come together for us on a daily basis. Working hard is a way of life."

Sorana Domsa | Creative Services | City of Calgary | LAPP member

Discussion *and* Analysis

Conventional wisdom tells us that double digit investment returns for four years in a row are highly unlikely. Clearly, conventional wisdom can be wrong.

For the fourth year in a row, stock markets around the world soared to new heights, confounding most investor expectations. A potent combination of global economic growth and slowly rising interest rates combined to keep LAPP's liabilities in check while producing a total investment return of 14.0% in 2006. This is in stark contrast to the pictures from 2000 to 2002, when falling interest rates and stagnant investment returns took direct aim at the health of the Plan.

Financial Report

LAPP's assets grew from $10.8 billion in 2004 to $14.6 billion in 2006, a two-year increase of 35.3% in the assets available to pay benefits. Of even greater significance, LAPP's funded ratio (a comparison of assets to liabilities) climbed from 89.3% in 2004 to 95.1% in 2006.

Needless to say, most asset classes performed well. Leading the way were international equities, which were assisted by strong global economic growth and profits. Canadian equities performed almost as well, benefiting from strong energy prices and worldwide demand for resource-based commodities. Strategic investments in emerging markets also posted strong returns, as did LAPP's real estate portfolio, which returned 21.3% and closed the year with a net value of $1.5 billion.

On the strength of this sustained financial performance, the LAPP Board of Trustees kept contribution rates for 2007 unchanged from the 2006 rate. The Board consulted its annual actuarial valuation and determined that the plan could continue for another year without an increase. However, as future economic conditions change, future rate hikes may be necessary.

While these year-end results are good news for all LAPP stakeholders, they do point out how indicators of future market performance can be unreliable. LAPP anticipated a tough year in 2006. We were pleased that it did not materialize, but we will continue to watch the markets closely and use the expertise of our Board and our professional investment advisors to make good policy choices and investment decisions.

Plan Design

Plan design refers to basic elements of the Plan, like benefits paid to retirees or costs paid by employers and employees. Over the year a number of plan design issues emerged from stakeholders, prompting the Board to consider the question of who should make these decisions. While policy and investment management decisions are the clear responsibility of the Board, the appropriate responsibility for plan design decisions is less clear.

Recognizing that all pension plan boards in Alberta were facing a similar question, Alberta Finance came forward with a plan to examine the appropriateness of the process for dealing with plan design. Phase 2 of its governance review will commence in 2007 and will look at responsibilities of plan boards, employers and unions when questions of plan design emerge. We anticipate this important review will be completed by the end of 2008.

The review is timely because, as mentioned, stakeholders have asked the Board to examine several plan design issues.

While the Board has made progress on these requests, the governance framework that Alberta Finance is seeking to establish will further clarify decision-making authority.

Plan Operations

The Board achieved a number of improvements to operations, including a new reciprocal transfer agreement between LAPP and the Public Service Pension Plan (PSPP). The new agreement makes transfers of pension service between LAPP and PSPP easier and more efficient, and paves the way for future agreements with other Canadian pension plans.

The Board now uses a risk budgeting framework to build a closer connection between the plan's assets and liabilities. The framework provides for comprehensive monitoring of LAPP's assets and liability profile, to assist with optimal investment and risk management decisions.

Plan Administration

This year was the first year of operation for the Alberta Local Authorities Pension Plan Corp. (ALAPP). Created as a result of Phase 1 of Alberta Finance's Governance review, the Minister of Finance formally delegated overall strategic guidance of the pension plan to the Board of Directors of the newly created corporation. This action helped to establish and clarify the roles of the Minister, Alberta Pensions Administration Corporation, the Board of Trustees and ALAPP Corp. in governing and administering the Plan.

Cost Effectiveness

With six employees on the payroll, ALAPP Corp.'s organization is small and efficient. To get the most out of each plan dollar, and in keeping with Alberta Finance delegations, member services are handled by Alberta Pensions Administration Corporation and investment services are handled by Alberta Investment Management.

The Board monitors the activities and costs of both organizations and receives quarterly and annual reports on their effectiveness from two independent monitoring agencies, Hewitt Associates and CEM Benchmarking Inc. In addition, expenses charged by those organizations to LAPP are audited by the Office of the Auditor General.

Further, the plan's financial statements are audited each year by the Auditor General's office.

LAPP's administrative goal is to keep plan costs at a reasonable level – adequate to provide the necessary services, but not excessive.

Communications

Significant advances were made this year, including the hiring of a Communications Manager to increase our focus in the areas of communications and stakeholder relations. Our existing Strategic Communication Plan was strengthened by a new framework for stakeholder consultation. LAPP communication materials were focus tested and evaluated, with an eye to making them easier to read and understand. The amount of content in our newsletters was significantly increased, to give stakeholders more information about their pension plan.

But it was our one-on-one interactions – trade show displays, employer presentations and individual counselling sessions – that really paid off. Feedback from these sessions was used to refine and simplify the information LAPP was communicating. Over the coming year, watch for a renewed emphasis on clearer and easier-to-understand pension information.

Investment Management Structure

Alberta Investment Management (AIM), the investment operations group of Alberta Finance, is the general investment manager responsible for day-to-day management of investments. The plan's assets are invested for the plan's beneficiaries in accordance with the Board of Trustees' *Statement of Investment Policy and Goals (SIP&G).*

Market Review

The Canadian stock market posted its fourth consecutive year of double-digit returns. Overall, the S&P/TSX Composite Index increased by 17.3% in 2006 compared to 24.1% in 2005, 14.5% in 2004 and 26.7% in 2003. Over eight years, the annualized return from this index was 10.9%.

In the U.S., the S&P 500 Index, which tracks the performance of 500 of the largest American companies, increased by 15.7% over the year compared to 1.6% in 2005 (measured in Canadian dollars.) Over eight years, the annualized return from this index was -0.1%.

The non-North American markets posted healthy returns in 2006. The Morgan Stanley Capital International Index for Europe, Australasia and the Far East (MSCI EAFE) tracks the performance of approximately 1,200 companies on 21 country indices around the world. The index increased by 26.3% during the year, compared to 10.0% last year (measured in Canadian dollars.) Over eight years, the annualized return from this index was 3.4%.

The Canadian bond market, as measured by the Scotia Capital (SC) Universe Bond Index, increased by 4.1% over the year compared to 6.5% in 2005. Over eight years, the annualized return from this index was 6.2%.

Investment Returns

We can see from the preceding section that individual market indices can fluctuate between years of high and low returns. By comparison, LAPP earned a return of 14.0% in 2006 compared to 14.3% in 2005. The 2006 actual return is higher than the 6.3% return expected on an annual basis in the actuarial valuation. Over eight years, the annualized return from plan investments was 7.5%.

Investing in only one market exposes the portfolio to unreasonable risks, as witnessed in the Canadian equity market between September 2000 and March 2003 when the S&P/TSX Composite Index fell 41.1%. By diversifying across a variety of markets and asset classes, LAPP's balanced portfolio has produced consistent value-added performance over the long-term.

Asset Mix

LAPP's Board sets the asset mix policy for the plan and uses financial models to assess risk/return relationships of stocks, bonds, real estate and alternative investments. We use risk budgeting to measure and manage assets relative to plan liabilities in order to construct the combination of assets most appropriate for achieving the plan's financial objectives.

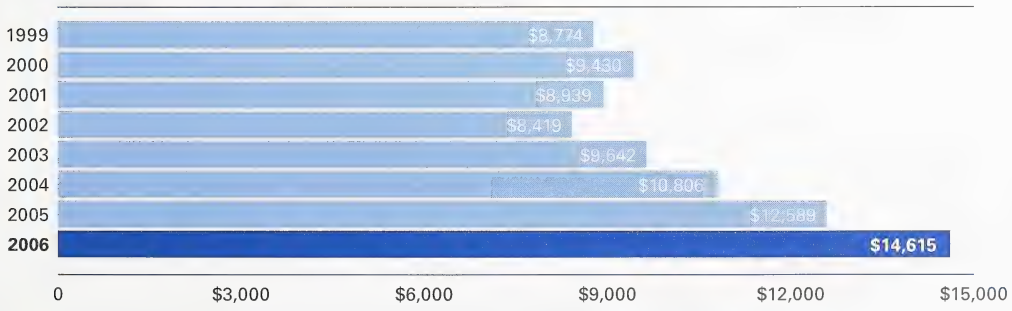
The table on the following page summarizes the relationship between policy and actual asset mix in 2006 and 2005.

ASSET MIX %

As at December 31	2006		2005	
	Policy	**Actual**	Policy	Actual
Fixed Income				
Cash and Short-term	**0.5%**	**2.0%**	0.5%	2.1%
Universe Bonds and Mortgages	**8.0%**	**7.9%**	8.0%	8.9%
Long-term Bonds	**20.0%**	**18.2%**	20.0%	19.1%
Real Return Bonds	**5.0%**	**4.2%**	5.0%	4.9%
Total	**33.5%**	**32.3%**	33.5%	35.0%
Equities and Alternatives				
Canadian	**15.0%**	**17.2%**	15.0%	18.3%
United States	**7.5%**	**13.8%**	7.5%	12.9%
Non-North American	**17.0%**	**19.2%**	17.0%	18.0%
Real Estate	**10.0%**	**10.1%**	10.0%	9.9%
Alternative Investments	**17.0%**	**7.4%**	17.0%	5.9%
Total	**66.5%**	**67.7%**	66.5%	65.0%

Note that the significant policy-to-actual differences in United States equities and Alternative Investments are primarily caused by the time it takes to transition efficiently out of equities and into appropriate Alternative Investments.

MARKET VALUE - INVESTMENTS (MILLIONS)



Investment Results

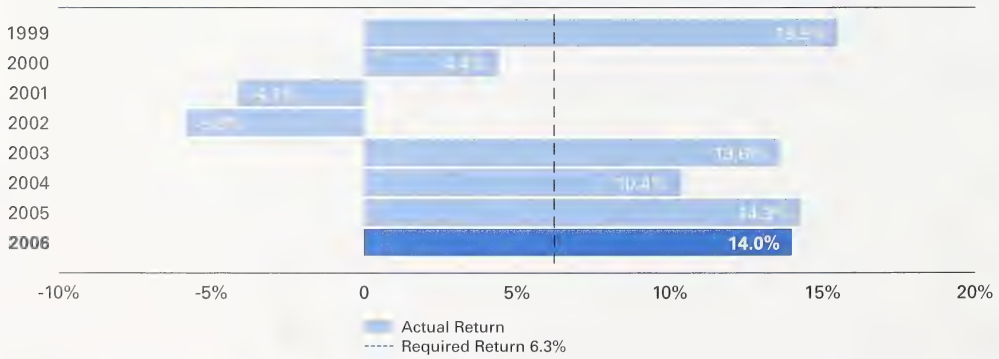
To evaluate performance and measure how much additional return our managers generated from their active investment decisions, we compare our actual investment results to our investment policy benchmark. The benchmark return represents what we could reasonably expect to earn if we invested in the market indices in proportion to our policy asset mix. Our investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices.

In 2006, the plan earned a total fund return of 14.0%, 1.0% better than the investment policy benchmark return of 13.0%. In other words, our investment managers added approximately an extra $125 million of value over the market returns in 2006. Over four years and eight years our investment managers earned annualized returns of 13.1% and 7.5% respectively compared to the policy benchmarks of 12.5% and 6.8%.

ANNUALIZED RETURNS (%)

Ending December 31, 2006	Years				
	1	2	3	4	8
Actual Return	14.0	14.1	12.9	13.1	7.5
Policy Benchmark	13.0	12.8	12.1	12.5	6.8
Value Added	1.0	1.3	0.8	0.6	0.7

ANNUAL RETURNS (%)



Fixed Income

As at December 31, 2006, the plan had approximately $4.7 billion or 32.3% of its total investments held in fixed income securities compared to $4.4 billion or 35.0% at the beginning of the year. Fixed income securities include long-term bonds, mortgages, real return bonds and short-term investments. Fixed income investments are used to provide cash flow and adequate liquidity to meet the plan's financial obligations, as to well as match some of our liabilities for risk management purposes.

We actively manage fixed income assets to generate extra returns over their respective benchmarks. Total fixed income assets earned 3.6% in 2006, outperforming their benchmark by 0.6%.

Total Public Equities

Given LAPP's long-term investment horizon, its asset mix policy is structured to capture the historically high rate of return from equities. This asset class represented $7.3 billion (50.2%) of our asset mix at December 31, 2006 compared to $6.2 billion (49.2%) at the beginning of the year. This 50.2% consists of 17.2% Canadian, 13.8% U.S. and 19.2% non-North American equities.

	Actual Return %	Benchmark Return %
Short Term		
1 Year	4.0	4.0
4 Years	3.1	2.9
8 Years	3.8	3.6
Bonds and Mortgages		
1 Year	4.9	4.1
4 Years	6.9	6.1
8 Years	6.9	6.2
Long Government Bonds		
1 Year	4.5	3.9
4 Years	9.6	8.9
8 Years	n/a	n/a
Real Return Bonds		
1 Year	-2.9	-2.9
4 Years	10.6	10.5
8 Years	n/a	n/a
Total Fixed Income		
1 Year	3.6	3.0
4 Years	8.1	7.5
8 Years	7.4	6.9

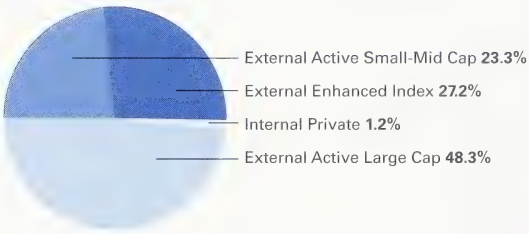
"n/a" means the asset has not been held for the appropriate time period.

Canadian Public Equities

At December 31, 2006, Canadian equities represented $2.5 billion (17.2%) of LAPP's total investments compared to $2.3 billion (18.3%) at the beginning of the year. Canadian equities are managed through several funds, including passive index and active 'large' and 'small' capitalization.

The actual return from Canadian equity investments in 2006 was 17.2%, 0.1% less than the benchmark return of 17.3%.

SUMMARY OF CANADIAN EQUITY HOLDINGS



CANADIAN PUBLIC EQUITIES

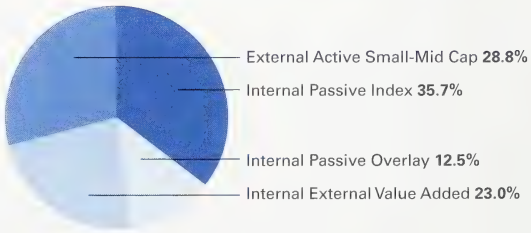
	Actual Return	Benchmark Return
	%	%
1 Year	17.2	17.3
4 Years	20.5	21.3
8 Years	11.4	11.3

U.S. Public Equities

At December 31, 2006, U.S. public equities comprised $2.0 billion (13.8%) of the plan's total investments compared to $1.6 billion (12.9%) at the beginning of the year. Passive index strategies comprised 35.7% of the U.S. equity portfolio. Internal-external value added strategies, which are portable alpha strategies that provide S&P 500 Index exposure with value added provided by hedge fund managers, represent 23.0%. Small mid-cap strategies comprised 28.8% and the remaining 12.5% includes the internal passive U.S. equity overlay which is implemented by the investment manager on a tactical basis.

The plan's actual return from U.S. equity investments in 2006 was 15.3%, 0.6% less than the benchmark return of 15.9% measured in Canadian dollars.

SUMMARY OF UNITED STATES EQUITY HOLDINGS



U.S. PUBLIC EQUITIES

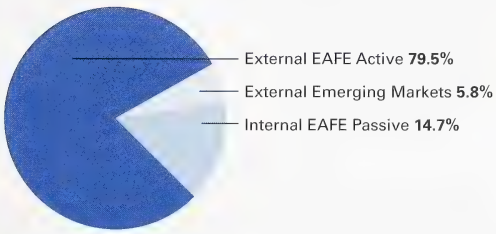
	Actual Return	Benchmark Return
	%	%
1 Year	15.3	15.9
4 Years	7.3	7.5
8 Years	0.5	0.5

Non-North American Public Equities

To provide geographic diversification and capture investment opportunities globally, we invest outside of North America, primarily in Europe, Australasia, and the Far East (EAFE), using both active and passive strategies in both developed and emerging stock markets. At December 31, 2006, the Plan's non-North American investments totalled $2.8 billion (19.2%) of total investments compared to $2.3 billion (18.0%) at the beginning of the year.

In 2006, the plan's actual return from non-North American equity investments was 26.7%, 0.4% better than the benchmark return of 26.3% from the MSCI EAFE Index in Canadian dollars.

SUMMARY OF NON-NORTH AMERICAN EQUITY HOLDINGS



NON-NORTH AMERICAN PUBLIC EQUITIES

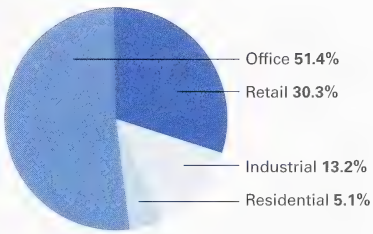
	Actual Return	Benchmark Return
	%	%
1 Year	26.7	26.3
4 Years	16.4	15.2
8 Years	6.0	3.4

Real Estate

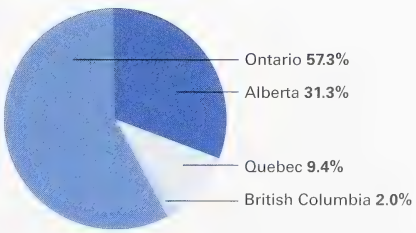
At December 31, 2006, real estate investments comprised $1.5 billion (10.1%) of total investments, compared to $1.2 billion (9.9%) at the beginning of the year. We invest in real estate for diversification and inflation protection purposes. Our real estate portfolio includes a mix of retail, office, residential and industrial properties in major Canadian urban areas including Montreal, Toronto, Ottawa, Calgary, Edmonton, and Vancouver. The focus is on quality properties featuring strong locations and tenants.

In 2006, real estate returned 21.3%, 2.7% better than the benchmark return of 18.6%.

REAL ESTATE BY TYPE



REAL ESTATE BY PROVINCE



TOP FIVE REAL ESTATE HOLDINGS IN WHICH LAPP HAS AN OWNERSHIP INTEREST

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Square One Shopping Centre	Mississauga, Ontario	Retail
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

REAL ESTATE

	Actual Return	Benchmark Return
	%	%
1 Year	21.3	18.6
4 Years	17.7	14.9
8 Years	12.3	12.6

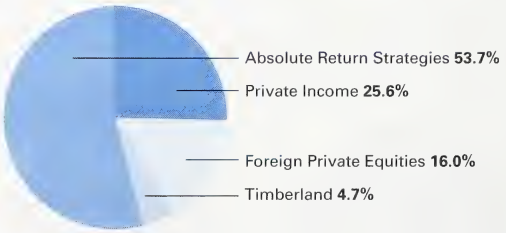
Alternative Investments

Alternative investments include:

- private income or investments in infrastructure projects (e.g. roads, utilities, and airports);
- absolute return strategies to generate more certain returns; and
- commodities such as timberland.

At December 31, 2006, LAPP had $1.1 billion (7.4%) of total investments held in this asset class compared to $744 million (5.9%) at the beginning of the year.

ALTERNATIVE INVESTMENTS



In 2006, alternative investments returned 14.5%, 7.1% greater than the benchmark return of 7.4%.

ALTERNATIVE INVESTMENTS

	Actual Return	Benchmark Return
	%	%
1 Year	14.5	7.4
4 Years	n/a	n/a
8 Years	n/a	n/a

"n/a" means the asset class has not been held for the appropriate time period.

Outlook

2006 was a positive year for global equity and real estate returns. Equity markets rose based on strong economic and corporate earnings growth, especially in South-East Asia and Europe. U.S. economic growth, while initially strong, slowed in the second half due mostly to a deteriorating residential housing sector.

Looking ahead, the global outlook is not as good as it was a year ago. Global economic growth is expected to decline to 4.0 - 4.5% in 2007, down from 5.1% in 2006. A combination of this slowing economic growth, inflation uncertainty and volatile interest rates is likely to dampen investment returns in 2007.

The U.S. economy is expected to stabilize and grow at an average pace of 2.5 - 3.0% in 2007, but corporate earnings growth will likely decline. In addition, investors are worried about the negative impact from potential weakness in the U.S. dollar stemming from a large and growing trade imbalance as well as global political tensions. While interest rates remain low, the bond market offers little potential for significant capital gains, which will in turn keep bond returns low.

We conclude that equity returns will outpace bond returns, but not by as much as in 2006. Since we anticipate a challenging and volatile investment climate for the immediate future, we expect lower total fund returns in 2007 compared to the double digit total returns the fund realized over the past several years.

Investment Costs

In 2006, investment costs totalled $45.0 million compared to $36.9 million the previous year. Total investment costs consisted of Alberta Finance's costs of $2.3 million to manage the plan investments (2005: $2.1 million) as well as $42.7 million charged for pooled fund management and custodian fees (2005: $34.8 million). Pooled fund management and custodian fees increased by $7.9 million to $42.7 million. The increase is largely due to fees charged by external managers, particularly for alternative investments. External management fees are based on a percentage of net assets under management, and on committed amounts in the case of some alternative investments.





"The workers are focused on the dangers around them – the fast-moving vehicles, the weight of the barricades, and the need to stay within the confines of a single lane. Concentration is critical."

Dwayne Cunningham | General Supervisor | Traffic Field Operations | LAPP member

Discussion *and* Analysis | Benefit Administration

Plan benefits are administered by Alberta Pensions Administration (APA) Corporation.

Contributions

In 2006, total contributions to LAPP were $835.0 million.

	$ millions	%
Employer Contributions	435.7	52.2
Member Contributions	392.2	47.0
Transfers from other Plans	7.1	0.8
Total	835.0	100

LAPP Expenses

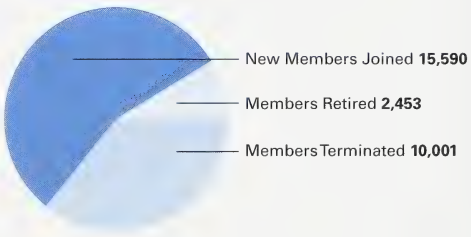
APA Corporation's costs are distributed among the public sector pension plans it serves. LAPP per member costs are based on a cost-share formula, which allocates APA Corporation operating costs according to a formula decided by the Minister of Finance and detailed in the Administrative Services Memorandum of Understanding between APA Corporation and the Board.

In 2006, APA Corporation's costs were $14,471,000, or $88 per LAPP member.

Members, Pensioners and Employers

LAPP serves 408 employers and a total of 168,334 active and deferred members and pensioners. In 2006, 15,590 people joined LAPP, 2,453 LAPP members retired and 10,001 people terminated (includes members who chose to keep their benefits in LAPP and members who withdrew their benefit entitlements).

LAPP SERVICES - 2006



Communication and Education Services

In 2006, APA Corporation communicated with LAPP members, pensioners and employers in a number of ways, including:

- **15,590 Member Welcome Packages** were sent to new members
- **133 Member seminars** were held
- **4,697 Members participated** in member seminars
- **602 Members attended** one-on-one sessions held across Alberta
- **12 Editions of the electronic employer newsletter**, ***Pension e-news***, were produced
- **38 Employer workshops** were held
- **776 Employer representatives** attended employer workshops

Projects

APA Corporation worked on a number of projects in 2006 that impact LAPP stakeholders. Major projects included:

- *Pension e-guide* – this online manual for employers was expanded to include forms, membership information and details on the processing of retirement, termination, optional service, death and disability transactions. *Pension e-guide* provides employers with fast, electronic access to information needed for the administration of pensions.
- Vault – this document imaging and electronic records management project was implemented for member records. This project increases the security for APA Corporation's records, while also increasing accessibility of the records for pension administration purposes.
- Reciprocal Transfers – a new form of reciprocal transfers was implemented for plan members moving between LAPP and the Public Service Pension Plan with an effective date of January 1, 2007.

Cost-of-Living Adjustment (COLA) to Pensions in Pay

After a member begins to receive a pension, a cost-of-living adjustment is applied every year that there is an increase in the Alberta Consumer Price Index (ACPI). The ACPI averages the increase in the cost of a group of goods and services that are normally purchased by Alberta households. The cost-of-living adjustment is equal to 60% of the yearly increase in ACPI.

The January 1, 2007 COLA for pensioners who retired before January 1, 2006 is 2.16%. This is 60% of the 3.6% increase in the ACPI over the 12-month period ending October 31, 2006, compared to the same period ending October 31, 2005. Information about how COLA and ACPI are calculated is available at www.lapp.ab.ca.

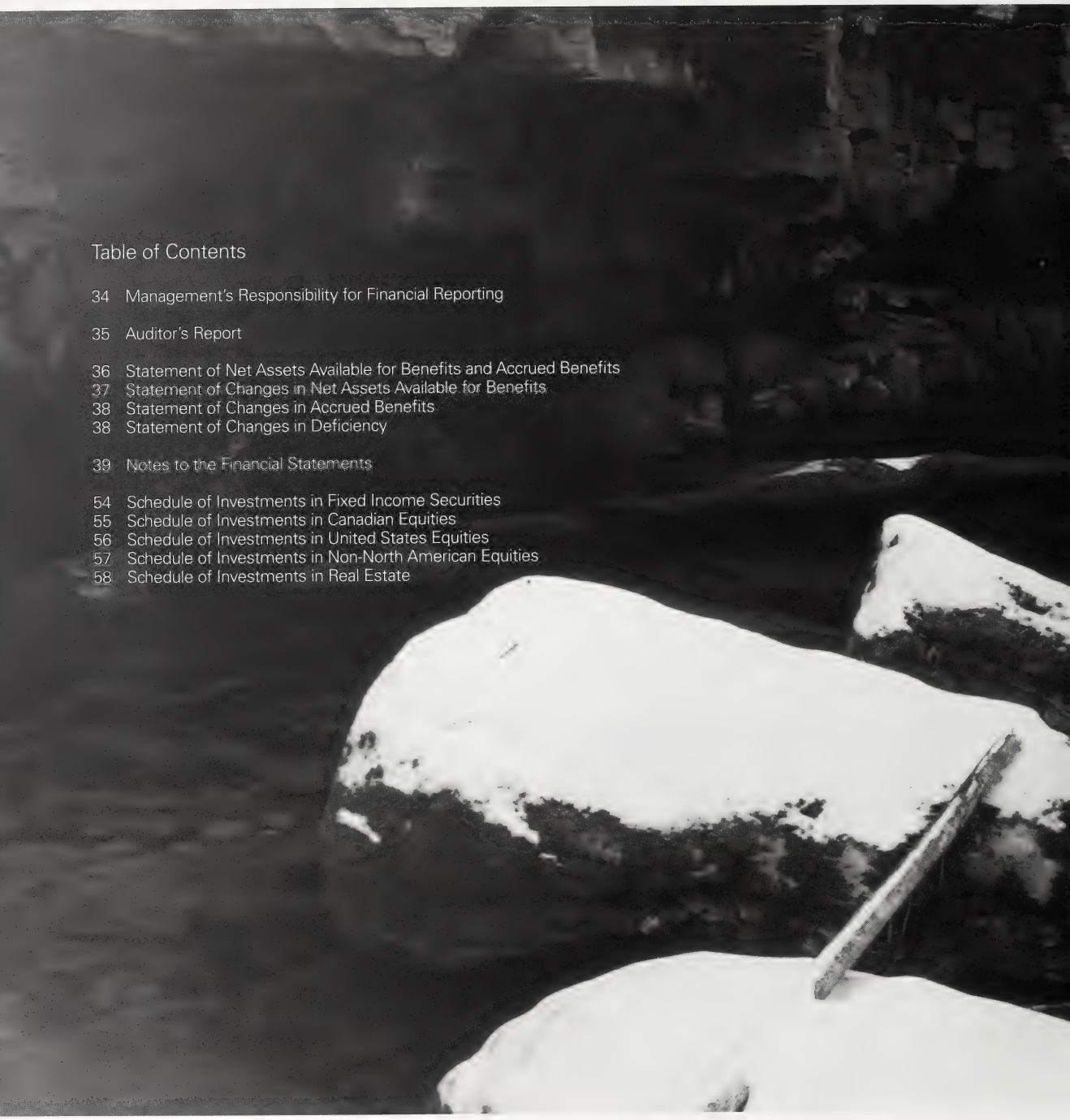


Table of Contents

34 Management's Responsibility for Financial Reporting

35 Auditor's Report

36 Statement of Net Assets Available for Benefits and Accrued Benefits
37 Statement of Changes in Net Assets Available for Benefits
38 Statement of Changes in Accrued Benefits
38 Statement of Changes in Deficiency

39 Notes to the Financial Statements

54 Schedule of Investments in Fixed Income Securities
55 Schedule of Investments in Canadian Equities
56 Schedule of Investments in United States Equities
57 Schedule of Investments in Non-North American Equities
58 Schedule of Investments in Real Estate



Local Authorities Pension Plan
Financial Statements
December 31, 2006

Management's Responsibility for Financial Reporting

The Local Authorities Pension Plan (Plan) financial statements and financial information in the 2006 Annual Report are the responsibility of the Minister of Finance. Certain of these responsibilities are undertaken on behalf of the Minister of Finance by:

- Alberta Investment Management (AIM), the investment operation of Alberta Finance, which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board;
- Alberta Pensions Administration (APA) Corporation, which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance.
- Alberta Local Authorities Pension Plan (ALAPP) Corp., which is only responsible for Plan strategy and Board support; and
- Alberta Treasury Board, which is responsible for compilation and review of the Plan's financial statements.

The information in this annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance, based on information provided by APA Corporation, Alberta Local Authorities Pension Plan Corp. and the Plan's actuary, and after consultation with the Plan's Board of Trustees.

The financial statements have been prepared by Alberta Treasury Board in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2006 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Treasury Board, Alberta Finance, APA Corporation, ALAPP Corp. and AIM each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.



Robert Bhatia
Deputy Minister of Finance

March 2, 2007

LOCAL AUTHORITIES PENSION PLAN

Auditor's Report

AUDITOR GENERAL *Alberta*

To the Minister of Finance and
The Local Authorities Pension Plan Board of Trustees

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Local Authorities Pension Plan (the Plan) as at December 31, 2006 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2006 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
March 2, 2007

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2006

	2006	2005
		($ thousands)
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	**$ 14,615,134**	$ 12,588,648
Contributions receivable (Note 6)	**31,759**	29,406
Accrued investment income and accounts receivable	**4,461**	4,102
	14,651,354	12,622,156
Liabilities		
Accounts payable	**6,305**	3,014
Net assets available for benefits	**14,645,049**	12,619,142
Accrued Benefits		
Actuarial value of accrued benefits	**15,391,700**	13,482,700
Deficiency	**$ (746,651)**	$ (863,558)

The accompanying notes and schedules are part of these financial statements.

LOCAL AUTHORITIES PENSION PLAN

Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 2006

	2006	2005
		($ thousands)
Increase in assets		
Contributions (Note 7)	**$ 834,972**	$ 733,705
Net investment income (Note 8)	**1,788,399**	1,563,841
	2,623,371	2,297,546
Decrease in assets		
Pension benefits	**429,125**	398,607
Refunds to members	**142,388**	85,706
Transfers to other plans	**7,078**	4,342
Plan expenses (Note 9)	**18,873**	17,225
	597,464	505,880
Increase in net assets	**2,025,907**	1,791,666
Net assets available for benefits at beginning of year	**12,619,142**	10,827,476
Net assets available for benefits at end of year	**$ 14,645,049**	$ 12,619,142

The accompanying notes and schedules are part of these financial statements.

LOCAL AUTHORITIES PENSION PLAN

Statement of Changes in Accrued Benefits

For the year ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	**$ 948,100**	$ 880,200
Benefits earned	**680,100**	581,700
Changes in actuarial assumptions (Note 10 (a))	**801,200**	368,100
Net experience losses (Note 10 (a))	**69,200**	36,500
	2,498,600	1,866,500
Decrease in accrued benefits		
Benefits paid including interest	**589,600**	500,200
Net increase in accrued benefits	**1,909,000**	1,366,300
Accrued benefits at beginning of year	**13,482,700**	12,116,400
Accrued benefits at end of year (Note 10)	**$ 15,391,700**	$ 13,482,700

The accompanying notes and schedules are part of these financial statements.

LOCAL AUTHORITIES PENSION PLAN

Statement of Changes in Deficiency

For the year ended December 31, 2006

	2006	2005
	($ thousands)	
Deficiency at beginning of year	**$ (863,558)**	$ (1,288,924)
Increase in net assets available for benefits	**2,025,907**	1,791,666
Net increase in accrued benefits	**(1,909,000)**	(1,366,300)
Deficiency at end of year	**$ (746,651)**	$ (863,558)

The accompanying notes and schedules are part of these financial statements.

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 1 Summary Description of the Plan

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 366/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, regional health authorities, school divisions, districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 11) are funded by employers and employees at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates for employers are 1.0% more than the rates for employees. The rates in effect at December 31, 2006 were 6.75% (2005 6.40%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 9.64% (2005 9.14%) of the excess for employees, and 7.75% (2005 7.40%) of pensionable earnings up to the YMPE and 10.64% (2005 10.14%) of the excess for employers.

The rates were reviewed by the Board in 2006 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the Board determined that a contribution rate change for 2007 is not necessary.

(c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least two years of membership. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of membership.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where service is less than two years, a lump sum payment must be chosen.

Notes to the Financial Statements

December 31, 2006

Note 1 Summary Description of the Plan (continued)

(f) Termination Benefits

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may receive the commuted value for all earned service, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest.

(g) Optional Service and Reciprocal Transfers

All optional service purchases are to be cost-neutral to the Plan.

Transferred-in service will be on an actuarial reserve basis and transfers out receive the commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. This calculation method has been set out in the Plan regulations since 1993.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities (continued)

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative investments and private investments is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(e) Valuation of Derivative Contracts (continued)

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

Gains and losses on derivative contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption changes and net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 3 Investments (Schedules A to E)

	2006 Fair Value ($ thousands)	%	2005 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	**$ 253,109**	**1.7**	$ 226,699	1.8
Canadian Long Term Government Bond Pool (b)	**2,664,300**	**18.2**	2,398,465	19.1
Canadian Dollar Public Bond Pool (b)	**714,449**	**4.9**	829,968	6.6
Real rate of return bonds (c)	**615,007**	**4.2**	622,491	4.9
Private Mortgage Pool (d)	**433,098**	**3.0**	286,011	2.3
External Managers Currency Alpha Pool (e)	**34,653**	**0.3**	36,616	0.3
Total fixed income securities	**4,714,616**	**32.3**	4,400,250	35.0
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (f)	**1,314,274**	**9.0**	1,150,817	9.1
Canadian Equity Enhanced Index Pool (g)	**740,665**	**5.1**	641,255	5.1
Canadian Small Cap Equity Pool (f)	**632,963**	**4.3**	557,826	4.4
Private Equity Pool	**32,295**	**0.2**	10,215	0.1
Domestic Passive Equity Pooled Fund	**-**	**-**	81,273	0.7
Tactical Asset Allocation Pool (k)	**(202,077)**	**(1.4)**	(133,596)	(1.1)
	2,518,120	**17.2**	2,307,790	18.3
United States Equities (Schedule C)				
U.S. Structured Equity Pool (h)	**719,693**	**4.9**	646,015	5.2
External Managers				
U.S. Small/Mid Cap Equity Pool (i)	**580,953**	**4.0**	506,844	4.0
Portable Alpha U.S. Transfer Pool (j)	**463,124**	**3.2**	306,251	2.4
Tactical Asset Allocation Pool (k)	**252,296**	**1.7**	166,889	1.3
	2,016,066	**13.8**	1,625,999	12.9
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (l)	**2,236,374**	**15.3**	1,704,667	13.5
EAFE Emerging Markets Equity Pool (m)	**163,768**	**1.1**	146,642	1.2
EAFE Structured Equity Pooled Fund (n)	**411,736**	**2.8**	409,690	3.3
	2,811,878	**19.2**	2,260,999	18.0
Alternative Investments - Equities				
External Managers				
Absolute Return Strategy Pool (o)	**579,942**	**4.0**	483,302	3.9
Private Income Pools (p)	**277,266**	**1.9**	155,241	1.2
Foreign Private Equity Pools (p)	**173,184**	**1.2**	53,280	0.4
Timberland Pool (q)	**50,372**	**0.3**	52,231	0.4
	1,080,764	**7.4**	744,054	5.9
Total equities	**8,426,828**	**57.6**	6,938,842	55.1
Real Estate (Schedule E)				
Private Real Estate Pool (r)	**1,473,690**	**10.1**	1,249,556	9.9
Total investments	**$ 14,615,134**	**100.0**	$ 12,588,648	100.0

Notes to the Financial Statements

December 31, 2006

Note 3 Investments (Schedules A to E) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Long Term Government Bond Pool (CLGB) and the Canadian Dollar Public Bond Pool (CDPB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Long Term All Government Bond Index and the Scotia Capital Universe Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada while the CDPB portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the pool a modest amount of cash to minimize rebalancing of cash flows in or out of the pool when the forward foreign exchange contracts settle.

(f) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over the long term while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(g) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(h) The U.S. Structured Equity Pool is passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Total Return Index. The pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 3 Investments (Schedules A to E) (continued)

(i) The External Managers U.S. Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the US mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(j) The Portable Alpha U.S. Transfer Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(k) The Tactical Asset Allocation Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. Cash and short-term securities held by the pool support approximately 5% to 10% of the pool's notional exposure in Canadian and United States equity index futures contracts.

(l) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded Non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(m) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(n) The EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(o) The External Managers Absolute Return Strategy Pool is managed with the objective of providing investment returns comparable to the Consumer Price Index plus 6%. The pool is intended to yield absolute positive investment returns with low volatility using various investment strategies.

(p) The Private Income Pools (PIP) and the Foreign Private Equity Pools (FPEP) are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 6% and the Consumer Price Index plus 8% respectively. The PIP invests in infrastructure related projects that are structured to yield high current income. The FPEP invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

Notes to the Financial Statements

December 31, 2006

Note 3 Investments (Schedules A to E) (continued)

(q) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The pool invests in a partnership interest in forestry land in British Columbia.

(r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediate companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

Note 4 Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a long-term benchmark policy asset mix of 33.5% fixed income instruments, 56.5% equities and 10% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to enhance returns and manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity.

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 5 Derivative Contracts (continued)

Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. Generally there are underlying securities supporting all swaps and leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2006:

	2006					2005	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Forward foreign exchange contracts	100	-	-	**$ 1,829,863**	**$ (19,937)**	$ 1,588,770	$ 3,540
Equity index swap contracts	75	25	-	**1,416,623**	**40,023**	1,354,629	23,766
Equity index futures contracts	100	-	-	**856,531**	**28,927**	498,130	5,944
Swap option contracts	73	9	18	**660,555**	**(482)**	-	-
Interest rate swap contracts	10	49	41	**635,831**	**(574)**	366,982	6,995
Credit default swap contracts	4	19	77	**408,346**	**637**	122,556	1,126
Cross-currency interest rate swap contracts	18	33	49	**321,275**	**10,780**	290,591	17,036
Bond index swap contracts	100	-	-	**204,976**	**1,176**	50,352	1,560
				$ 6,334,000	**$ 60,550**	$ 4,272,010	$ 59,967

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

Notes to the Financial Statements

December 31, 2006

Note 6 Contributions Receivable

	2006	2005
	($ thousands)	
Employers	$ 16,744	$ 15,585
Employees	15,015	13,821
	$ 31,759	$ 29,406

Note 7 Contributions

	2006	2005
	($ thousands)	
Current and optional service		
Employers	$ 435,722	$ 384,213
Employees (a)	392,214	344,929
Transfers from other plans	7,036	4,563
	$ 834,972	$ 733,705

(a) Includes $13,881,000 (2005 $12,881,000) of optional service contributions.

Note 8 Net Investment Income

Net investment income is comprised of the following:

	2006	2005
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$ 1,365,737	$ 1,192,185
Interest income	252,838	230,535
Dividend income	141,454	120,269
Real estate operating income	66,180	52,646
Securities lending income	4,842	2,999
Pooled funds management and associated custodial fees (Note 9)	(42,652)	(34,793)
	$ 1,788,399	$ 1,563,841

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 8 Net Investment Income (continued)

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2006	2005
		($ thousands)
Fixed Income Securities	**$ 162,258**	$ 400,017
Canadian Equities	**404,907**	550,697
Foreign Equities		
United States	**234,374**	34,378
Non-North American	**601,378**	254,080
Alternative Investments - Equities	**123,803**	57,884
Real Estate	**261,679**	266,785
	$ 1,788,399	$ 1,563,841

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	14.0%	13.1%	7.5%
Policy Benchmark**	13.0%	12.5%	6.8%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

Notes to the Financial Statements

December 31, 2006

Note 9 Plan Expenses

	2006	2005
	($ thousands)	
General administration costs and process improvement costs		
Alberta Pensions Administration Corporation (APA)*	**$ 14,471**	$ 13,297
Alberta Local Authorities Pension Plan Corp.**	**1,910**	1,662
Investment management costs	**2,300**	2,067
Actuarial fees	**192**	199
	$ 18,873	$ 17,225

* Comparative figure excludes plan board specific costs paid by APA ($1,165,000).

** Comparative figure includes plan board specific costs paid by APA ($1,165,000) and LAPP corporation costs ($497,000).

General administration costs and process improvement costs, including Plan Board costs (see Note 12) were paid to Alberta Pensions Administration Corporation and Alberta Local Authorities Pension Plan Corp. on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

Investment management costs were paid to Alberta Finance on a cost recovery basis to manage the Plan's investment portfolio. Pooled funds management and associated custodial fees totalling $42,652,000 (2005 $34,793,000) (see Note 8), which have been included in calculating net investment income, are excluded from plan expenses.

Alberta Local Authorities Pension Plan Corp. costs include remuneration to senior officials of the Corporation as follows:

	2006	2005*
	($ thousands)	
Chief Executive Officer		
Salary and bonus	**$ 182**	$ 193
Benefits**	**43**	20
Vice-President, Policy and Legal		
Salary and bonus	**140**	127
Benefits**	**27**	11
Vice-President, Investments***		
Salary and bonus	**170**	-
Benefits**	**32**	-
	$ 594	$ 351

* Remuneration for 2005 was paid by the LAPP Corporation.

** Includes employer's contribution to the Management Employees Pension Plan for 2006. (2005 Employer's contribution to the Local Authorities Pension Plan).

*** New position in 2006.

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 9 Plan Expenses (continued)

Total Plan expenses, including pooled funds management and associated custodial fees amounted to $375 per member (2005 $333 per member).

Pooled funds management and associated custodial fees amounted to $260 per member (2005 $222 per member). These expenses, which have been deducted in arriving at net investment income of the pools, are included in the determination of investment returns for the Plan (see Note 8).

Total Plan expenses including pooled funds management and associated custodial fees amounted to 0.42% (2005: 0.41%) of assets under administration.

Note 10 Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2005 by Mercer Human Resource Consulting and was then extrapolated to December 31, 2006. The 2005 valuation was completed after the financial statements of the Plan for 2005 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2005 are accounted for as assumptions changes and net experience losses in 2006.

The following is a summary of actuarial assumption changes and net experience losses as revealed in the 2005 valuation and reported in 2006:

		2006		2005
		($ thousands)		
Changes in actuarial assumptions				
Change in the investment rate of return assumption	**$**	**801,200**	$	-
Change of termination and retirement rates assumptions, percentage of members with an eligible spouse upon retirement assumption, and age gap assumption between male and female spouses		**-**		368,100
	$	**801,200**	$	368,100
Net experience losses (gains)				
Combined salary, CPP's YMPE increases and interest on contributions were other than assumed	**$**	**43,300**	$	68,200
Retirement, termination, mortality and disability experiences were less favourable than assumed		**35,900**		53,700
Cost-of-living increase in pension benefit payments were lower than expected, prior service data and other changes		**(10,000)**		(85,400)
	$	**69,200**	$	36,500

Actuarial valuations were determined using the projected benefit method pro-rated on service. The assumptions used in the actuarial valuations and extrapolations were developed as the best estimates of expected market conditions and other future events. These estimates were, after consultation with the Plan's actuary, approved by the Board of Trustees.

Notes to the Financial Statements

December 31, 2006

Note 10 Accrued Benefits (continued)

(a) Actuarial Valuation (continued)

The major assumptions used were:

	2005 Valuation and 2006 Extrapolation	2004 Valuation and 2005 Extrapolation
	%	
Investment rate of return	**6.30**	6.70
Inflation rate	**2.75**	2.75
Salary escalation rate*	**3.50**	3.50

* In addition to merit and promotion.

The Board of Trustees' policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2006 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2007.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2006:

		Sensitivities	
	Changes in Assumptions %	Increase in Plan Deficiency ($ million)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 1,054	0.8%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	636	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	2,498	2.9%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2005 valuation was 12.93%.

LOCAL AUTHORITIES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 11 Funding of Actuarial Deficiency

The Plan's deficiency is determined on the fair value basis for accounting purposes. However for funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation and extrapolation purposes amounted to $13,919 million at December 31, 2006 (2005 $12,821 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments totalling 2.95% of pensionable earnings shared equally between employers and employees until December 31, 2020. The special payments have been included in the rates in effect at December 31, 2006 (see Note 1(b)).

Note 12 Remuneration of Board Members

Remuneration paid with respect to a total of 14 Board members during the year amounted to $125,000 (2005 $107,000).

Note 13 Comparative Figures

Comparative figures have been restated to be consistent with 2006 presentation.

Note 14 Responsibility for Financial Statements

These financial statements were approved by the Deputy Minister of Finance, based on information provided by Alberta Pensions Administration Corporation, Alberta Local Authorities Pension Plan Corp. and the Plan's actuary, and after consultation with the Local Authorities Pension Plan Board of Trustees.

Schedule of Investments in Fixed Income Securities

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	**$ 289,324**	$ 274,927
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed	**1,416,483**	1,691,768
Provincial		
Alberta, direct and guaranteed	**272**	433
Other, direct and guaranteed	**1,701,455**	1,545,484
Municipal	**14,209**	16,667
Corporate, public and private	**1,259,605**	842,346
	4,392,024	4,096,698
Receivable from sale of investments and accrued investment income	**35,365**	29,486
Liabilities for investment purchases	**(2,097)**	(861)
	33,268	28,625
	$ 4,714,616	$ 4,400,250

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 4.80% per annum (2005 4.00% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount.

	2006	2005
	%	
under 1 year	**1**	1
1 to 5 years	**8**	9
6 to 10 years	**17**	19
11 to 20 years	**19**	20
over 20 years	**55**	51
	100	100

LOCAL AUTHORITIES PENSION PLAN SCHEDULE B

Schedule of Investments in Canadian Equities

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	**$ 46,567**	$ 46,033
Public equities (a) (b)		
Consumer discretionary	**174,582**	174,470
Consumer staples	**86,340**	109,520
Energy	**507,842**	526,917
Financials	**673,062**	626,683
Health care	**17,134**	31,933
Industrials	**274,890**	210,413
Information technology	**128,281**	108,266
Materials	**386,525**	312,312
Telecommunication services	**156,927**	106,227
Utilities	**18,984**	25,736
	2,424,567	2,232,477
Passive Index	**10,649**	10,842
	2,435,216	2,243,319
Private Equity Pool	**32,295**	10,215
Receivable from sale of investments and accrued investment income	**9,550**	65,732
Liabilities for investment purchases	**(5,508)**	(57,509)
	4,042	8,223
	$ 2,518,120	$ 2,307,790

(a) Reflects the Plan's effective investments in Canadian public equities, after taking into account the Plan's proportionate share of Canadian equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule of Investments in United States Equities

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	**$ 68,900**	$ 55,868
Public equities (a) (b)		
Consumer discretionary	**227,037**	175,884
Consumer staples	**141,649**	112,720
Energy	**165,395**	138,303
Financials	**410,996**	316,301
Health care	**247,055**	215,816
Industrials	**244,386**	197,119
Information technology	**308,383**	236,785
Materials	**76,429**	73,724
Telecommunication services	**52,664**	34,441
Utilities	**66,751**	55,258
	1,940,745	1,556,351
Passive Index	**2,088**	3,163
	1,942,833	1,559,514
Receivable from sale of investments and accrued investment income	**11,401**	28,539
Liabilities for investment purchases	**(7,068)**	(17,922)
	4,333	10,617
	$ 2,016,066	$ 1,625,999

(a) Reflects the Plan's effective investments in United States public equities, after taking into account the Plan's proportionate share of U.S. equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

LOCAL AUTHORITIES PENSION PLAN SCHEDULE D

Schedule of Investments in Non-North American Equities

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	**$ 66,345**	$ 11,065
Public equities (a) (b)		
Consumer discretionary	**345,175**	256,028
Consumer staples	**171,918**	148,349
Energy	**191,506**	165,619
Financials	**779,898**	605,562
Health care	**188,947**	172,277
Industrials	**363,778**	273,890
Information technology	**176,798**	145,075
Materials	**194,062**	171,282
Telecommunication services	**169,695**	138,350
Utilities	**125,921**	91,538
	2,707,698	2,167,970
Passive Index	**67,203**	72,840
Receivable from sale of investments and accrued investment income	**37,988**	29,812
Liabilities for investment purchases	**(67,356)**	(20,688)
	(29,368)	9,124
	$ 2,811,878	$ 2,260,999

(a) Reflects the Plan's effective investments in Non-North American public equities, after taking into account the Plan's proportionate share of Non-North American equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on the geographic location of the stock exchange on which stocks were purchased:

	Plan's Share	
	2006	2005
	($ thousands)	
United Kingdom	**$ 582,808**	$ 438,811
Japan	**532,109**	486,395
France	**297,905**	219,520
Germany	**203,747**	128,711
Switzerland	**156,477**	161,710
Netherlands	**155,092**	114,840
Spain	**110,419**	60,002
Italy	**95,288**	68,609
Australia	**85,974**	84,971
Sweden	**54,239**	47,015
Other	**433,640**	357,386
	$ 2,707,698	$ 2,167,970

Schedule of Investments in Real Estate

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	**$ 761**	$ 161
Real estate (a)		
Office	**730,834**	622,778
Retail	**431,799**	415,364
Industrial	**187,191**	124,164
Residential	**71,208**	56,985
	1,421,032	1,219,291
Passive Index	**50,963**	27,493
Receivable from sale of investments and accrued investment income	**934**	2,611
	$ 1,473,690	$ 1,249,556

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2006	2005
	($ thousands)	
Ontario	**$ 814,926**	$ 756,288
Alberta	**444,158**	331,244
Quebec	**134,237**	108,816
British Columbia	**27,711**	22,943
	$ 1,421,032	$ 1,219,291

Local Authorities Pension Plan

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